

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of **State Bank of Caledonia, Caledonia, Michigan**, prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **September 2, 1997**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

INSTITUTION'S RATING: This institution is rated **Outstanding**.

The State Bank of Caledonia aggressively promotes economic revitalization and growth given its size, financial capacity, location and current economic conditions. The bank's CRA program is responsive to the community's credit needs and reflects its commitment to meeting the credit needs of the entire assessment area. The bank's consistently high loan-to-deposit ratio (when compared to institutions of similar sizes), the high percentage of loans within the assessment area, and a reasonable dispersion of loans among borrowers of different income levels and businesses of different sizes support the bank's outstanding performance. The bank is in compliance with the substantive provisions of the antidiscrimination laws and regulations. No complaints were received by the institution regarding its CRA performance since the previous examination.

DESCRIPTION OF INSTITUTION

The State Bank of Caledonia, with total assets of \$87.6 million as of June 30, 1997, is a subsidiary of Caledonia Financial Corporation, a one-bank holding company located in Caledonia, Michigan. The bank operates its main office, and two full-service branch facilities located in Dutton and in Middleville. There are automated teller machines (ATMs) at each of the three bank facilities. The bank provides a variety of deposit and loan products/services which are available at all of the bank's facilities. The bank offers consumer, real estate, commercial, and agricultural loans at each of the branch offices.

The bank's primary business focus is retail banking. Although a significant portion of the loan portfolio consists of commercial/industrial loans, real estate loans are the bank's main loan products. According to the June 30, 1997 Consolidated Report of Condition, approximately 57.0% of the bank's loan portfolio is comprised of real estate-related loans, with 43.0% of all loans secured by one-to-four family residences. Commercial/industrial, loans to individuals, and agricultural loans comprise of 25.0%, 11.8%, and 5.7%, respectively, of the bank's loan portfolio. Mortgage loans include conventional loans (financing up to 90% loan-to-value with private mortgage insurance coverage), construction loans, mobile loans and home equity loans. Consumer loans include personal and home equity lines of credit, automobile loans, overdraft protection loans, unsecured and secured instalment loans, and credit cards. Applications for student loans are available at the bank, and are forwarded to Michigan National Bank for processing. The bank sells real estate mortgages on the secondary market to Fannie Mae and participates in various government-insured loan programs. It also participates in the Small Business Administration (SBA) Low Doc Program to facilitate the expansion of its small business loan portfolio. The bank does not face any legal impediments which would constrain its CRA activities.

The bank's competitors include Byron Center State Bank (Byron Center) and branch offices of Hastings City Bank (Caledonia/Middleville), Old Kent Bank (Caledonia) and The Huntington National Bank (Kentwood). Additional competition is provided by area savings and loan associations and credit unions.

DESCRIPTION OF THE STATE BANK OF CALEDONIA'S ASSESSMENT AREA

The bank's main office is located in Caledonia, Michigan, approximately 10 miles southeast of Grand Rapids, Michigan. The bank expanded its assessment area since the previous examination to include 20 complete census tracts (CTs). These CTs are part of the Grand Rapids-Muskegon-Holland Metropolitan Statistical Area (MSA) - 3000, and encompass all or portions of the following townships: Dorr, Leighton, Wayland (Allegan County); Irvin, Carlton, Thornapple, Yankee Springs, Orangeville, Rutland (Barry County), Grand Rapids, Vergennes, Lowell, Bowne, Caledonia, Gaines, Byron, and parts of Cascade and the City of Kentwood (Kent County). The communities of Caledonia, Gaines, Middleville and Alto lie to the southeast of Grand Rapids. These communities are located in the middle of the main expansion corridor for the City of Grand

Rapids. The assessment area includes eight (40%) middle-income and 12 (60%) upper-income tracts. There are no low- and moderate-income tracts within the bank's assessment area.

During the past fifteen years, the bank's service area has changed from largely agricultural to a mix of agricultural, residential and light industrial. According to contacts with community members, many new developments are planned for the area. The industrial areas are primarily located by two small industrial parks in Dutton and a number of small manufacturing businesses in Middleville and Caledonia. The commercial corridor along M-37 continues to develop. This road is a direct link between the bank's service area and Grand Rapids. The bank's service area has also experienced an expansion of large corporations including Steelcase and Foremost Corporation which is headquartered in a new office park in Caledonia Township. Outside community contacts have indicated that this expansion has helped create many new jobs for the community.

The median family income within the assessment area is \$41,798, while the MSA's median family income is \$36,722. According to the 1990 U.S. census data, the bank's assessment area has a population of 103,860. There are 27,760 families within the assessment area including 3,162 (11.4%) considered low-income; 3,988 (14.4%) moderate-income; 6,645 (23.9%) middle-income; and, 13,965 (50.3%) upper-income.

Officials of the Village of Caledonia stated that unemployment in the immediate area is low. According to the 1990 U.S. census data, the unemployment rate for the assessment area was 3.6%; 5.6% for the MSA; 6.8% for the City of Grand Rapids and 8.2% for the State of Michigan. According to the U.S. census data on economic patterns for the MSA, the service industry experienced the largest growth in employment (8.5%) from 1995 to 1996, followed by retail/wholesale trade at 5.8%. Kent County had the highest percentage change in per capita personal income between 1993 and 1994 (8.5%) than any other county within the MSA. There are a total of 40,756 housing units within the bank's assessment area, of which 27,891 (68.4%) are owner-occupied, 8,983 (22%) are rental, and 3,882 (9.5%) are vacant units. One-to-four family homes account for the majority (72.5%) of the assessment area's housing, while multifamily and mobile homes comprise 6,734 (16.5%) and 4,007 (9.8%) respectively, of the total housing. The median housing value for the assessment area is \$79,356, compared to \$65,347 for the MSA.

Performance Criteria

Loan-to-Deposit Ratio Analysis

An analysis of the bank's Consolidated Reports of Condition for the six quarters ending June 30, 1997, revealed an average loan-to-deposit (LTD) ratio of 73.8%. According to the March 31, 1997 Uniform Bank Performance Report (UBPR) data, the bank's LTD ratio of 76.1% exceeds the national peer group ratio of 69.9%. The following chart shows the bank's ratios over the six quarters:

Qtr.	3/96	6/96	9/96	12/96	3/97	6/97	Avg.
L/D%	69.3%	71.3%	71.5%	74.1%	76.1%	80.2%	73.8%

According to the data in the preceding chart, the bank's loan-to-deposit ratio increased each quarter. The bank's average LTD ratio does not reflect the \$ 4.6 million in mortgage loans the bank originated and sold in the secondary market since the previous examination. The loans sold included \$651,428 (14.2%) that required Private Mortgage Insurance (PMI). The mortgage loans originated with PMI met the financing needs of those individuals who did not meet the conventional 80% loan-to-value ratio required by the bank.

The following chart indicates the LTDs, as of June 30, 1996, of similar sized competitors of the State Bank of Caledonia:

COMPETITOR ANALYSIS		
NAME	LTD Ratio	Assets (\$000)
Hasting City Bank - (Branch)	68.7%	\$162,983
Byron Center State Bank	87.0%	\$227,149

The bank's current LTD of 80.2% is generally consistent with its local competitors' as of June 30, 1997. Based on the increasing trend and current level of the bank's LTD which exceeds its national peer group, the bank's level of lending exceeds the standards for satisfactory performance.

Lending in Assessment Area Analysis

An analysis of the examination loan sample, the bank's Home Mortgage Disclosure Act (HMDA) loan application register for the six months ending June 30, 1997, and a six month sample of home equity lines of credit revealed the following distribution of loans made within the assessment area:

LOAN TYPE	TOTAL SAMPLED	NUMBER OF LOANS WITHIN THE ASSESSMENT AREA	PERCENT OF TOTAL
Consumer Loans:			
Real Estate	*67	54	80.6%
Installment (Direct/Indirect)	25	20	80.0%
Single Payment	20	17	85.0%
Consumer Plus (Open-End)	10	10	100.0%
Credit Cards (Visa/Mastercard)	15	12	80.0%
Overdraft Protection (Open-End)	10	10	100.0%
Home Equity (Open-End)	*36	34	94.4%
Commercial and Agricultural	20	17	85.0%
Total Applications:	203	173	85.7%

* This amount represents the six month loan samples.

The preceding chart illustrates that a high percentage of the bank's loans, were made within the assessment area. Additionally, the bank conducts a quarterly self-analysis of lending activity within its assessment area. The most recent analysis in the second quarter of 1997, which included all loan originations during a six month period (January through June of 1997), indicated that 88.0% of all loans were originated within the assessment area. The dollar amount of the loan originations within the assessment area represents 87.0% or \$21,882,843 of the total \$25,121,503 originated during this period. This high level of lending within the assessment area exceeds the standards for satisfactory performance.

Lending Analysis Based Upon Borrower Income and Size of Business

An analysis of the examination loan sample, the bank's Home Mortgage Disclosure Act (HMDA) loan application register for the six months ending June 30, 1997, and a six month sample of home equity lines of credit revealed the following distribution of loans among borrowers of different income levels, where income information was available:

LOAN TYPE	LOW-INCOME Number/\$000s	MODERATE INCOME Number/\$000s	MIDDLE INCOME Number/\$000s	UPPER-INCOME Number/\$000s
Real Estate *	0/ \$0	7/ \$301	14/ \$900	46/ \$5,192
Installment (direct/indirect)	6/ \$29	4/ \$35	2/ \$7	8/ \$78
Single Payment	4/ \$25	0/ \$0	3/ \$21	12/ \$105
Consumer Plus (Open-End)	2/\$4	0/\$0	1/\$4	7/\$64
Overdraft Protection (Open-End)	1/\$.2	3/\$5	3/\$3	2/\$2
Credit Cards (Visa/Mastercard)	1\$.5	4/\$11	3/\$6	3/\$13
Home Equity (Open-End) *	2/ \$21	5/ \$71	11/ \$263	18/ \$397
Total	16/ \$78	23/\$423	37/ \$1,204	96/ \$5,851

* This amount represents the six month loan sample.

As shown in the previous chart, 16 (9.3%) and 23 (13.4%) of all loans reviewed were made to low- and moderate-income individuals respectively. This level of lending is consistent with the demographics of the assessment area which includes 11.4% low-income and 14.4% moderate income families.

A six-month sample of commercial/agricultural loans was also reviewed. All of the loans sampled were for amounts less than \$1 million, and were primarily made to small business owners. The sample included 254 loans totaling \$16,647,855 with loan amounts ranging from \$3,000 to \$462,695. As the range of loan amounts suggest, the commercial lending activity is focused on small businesses. Additionally, the bank is involved in a \$3 million community development loan participation with Grand Bank, of which the bank's portion is \$1,200,000. This loan was extended to a nonprofit mission organization which provides food, shelter and treatment to the homeless in the community. The organization is also a state licensed substance abuse treatment center. The building in which these services will be provided will continue to offer counseling and other educational classes to the community.

A review of the bank's 1997 Consolidated Reports of Condition (as of June 30, 1997) revealed the following loan distribution to small businesses:

Loan \$ Category (000's)	1997 Number of Loans	Dollars (\$000s)	Percent of Dollars
Small Business Operating			
\$100 or less	297	5,785	37.0%
\$100 - \$250	118	5,200	33.3%
\$250 - \$1 million	27	4,655	29.8%
TOTAL	442	15,640	
Small Business Real Estate			
\$100 or less	27	1,009	19.0%
\$100 - \$250	20	1,793	33.8%
\$250 - \$1 million	8	2,501	47.2%
TOTAL	55	5,303	

The preceding chart shows that the majority of the bank's loans under \$1 million were for \$100 thousand or less. Compared to the previous year, small business real estate and small business operating loans increased 41% and 11%, respectively. Management attributed some of the small business loan growth to the relocation of several businesses within the area, and the expansion of two industrial parks. The bank also originated 57 small farm loans in 1997 and 56 in 1996.

Overall loan distribution reflects strong penetration to low- and moderate-income borrowers and small businesses, consistent with the demographics of the assessment area. As a result, the bank's level of lending to borrowers of different incomes and businesses of different sizes exceeds the standards for satisfactory performance.

Geographic Distribution of Loans

The bank's assessment area includes eight middle-income and 12 upper-income census tracts. Because there are no designated low- or moderate-income geographies located within the bank's assessment area, this criterion is not rated.

Response to Substantiated Complaints

No complaints were received by the institution regarding its CRA performance since the previous examination.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

The institution is in compliance with the substantive provisions of antidiscrimination laws and regulations, including the Fair Housing Act.